

The Director of Central Intelligence

Washington, D. C. 20505

Elon

17 April 1985

The Honorable J. William Middendorf II
United States Permanent Representative
to the Organization of American States
Department of State
Room 6494
Washington, D. C. 20520

Dear Bill,

As you know from our previous discussions and exchange of letters, I concur with your concerns about Latin America. In recent months we have noted some progress, albeit still slow. Exports from countries such as Brazil have increased, in large measure as a result of the economic recovery here, and allowed for some rise in imports while maintaining the positive improvement in trade balances.

The movement toward more healthy investment practices is slow, however, and I agree that we should take every opportunity to push for reform in this area.

Yours,

WJC
William J. Casey



**SUBJECT: Letter to The Honorable J. William Middendorf II, U.S.
Representative to the Organization of American States**

NIO/Econ/DL:rt
Distribution:



16 April 1985

NIC 02008-85

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Original - Addressee

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19	NIO/LA		X		
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21	NIO/ECON	X			
22	D/ALA/DI		X		
SUSPENSE				20 Mar 85	
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Remarks

TO #21: Please provide response - coordinate with NIO/LA and /DO.

Executive Secretary

13 Mar 85

Date

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copy of this
action, do you?*



United States Department of State

United States Permanent Mission to the
Organization of American States

Washington, D. C. 20520

Executive Regist

February 22, 1985

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Dear Bill:

As a friend of the OAS, and one who is interested in preserving freedom in our hemisphere, your help is needed in addressing a grave problem facing us south of the border. The continuing economic deterioration of most countries in Latin America can have dangerous security ramifications and indeed, the resulting poverty and high unemployment has the potential to open the door to the usual vulture-style Soviet/Cuban-supported subversion. In that regard, Central America is receiving most of the focus today, but many of the countries in the southern hemisphere may again become vulnerable if substantial economic growth does not come soon.

Further, the difficulties of handling approximately \$350 billion of debt could disastrously affect the banking systems of the West, and in the resulting acrimony, might turn traditional friends against us, diverting attention from the Soviet-Cuban-Nicaraguan threat to Central America.

Most of the recovery in Latin America at the moment can be attributed to a one shot sharp reduction in imports and belt-tightening under IMF guidance, rather than true economic expansion. For long-term growth, major structural changes are needed.

Perhaps, at the root of Latin economic troubles is the shortage of capital. Domestic savings have not found a generally hospitable local investment environment and have fled most of these countries, and foreign direct investment has generally not found this area attractive either. The root problem has been the parastatal-government intervention approach in many of these countries. Vast numbers of money-losing government-owned enterprises dominate many of the economies of the biggest debtor nations, and the huge resulting deficits have caused enormous inflation rates. According to its own government, Bolivia's annual inflation rate for 1984 was 2,177%, and other sources now report it as being over 10,000%, the highest in the world; Argentina's last year was 688%.



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The Inter-American Development Bank has estimated that over the next 15 years, Latin America will have to create 100 million new jobs at a cost of over \$12,000 per job to take care of the expected population growth. Over half the population of Mexico and many other countries is now under 20 years of age. This \$1.2 trillion of new capital, quadruple the amount the Latins were able to attract in new bank loans over the last decade, can only come from savings and new investments. This is not an impossible task, but it will only come about if Latin America moves dramatically to make itself attractive for both local investors to keep their money there and for new outside investors to want to come there.

Recently, we addressed this issue head-on at the di Tella Institute, a leading think-tank in Buenos Aires. (A copy is enclosed.) In addition, we have introduced the subject into the OAS Economic and Social Council, where it will now be a major focus of official attention. All of us who want to see a secure and economically-viable Latin America must spread the word that the free market and a viable private sector without undue government interference works. President Reagan has shown us the way here. Can you help carry this message south of the border with your contacts? Our own long-term survival as a nation may depend on it.

Sincerely, .

Bill

J. William Middendorf, II
Ambassador
Permanent Representative

Enclosure:

As stated

The Honorable
William J. Casey,
Director of Central Intelligence.

Current
Policy
No. 638

The Role of Investment in Latin America's Economic Future

November 19, 1984



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Ambassador J. William Middendorf II, U.S. Permanent Representative to the Organization of American States (OAS), before the Torcuato di Tella Institute of Argentina, Buenos Aires, Argentina, November 19, 1984.

It is a pleasure for me to be here with you today, since our discussion is a visible example of the indomitable nature of democracy. I say this because, as U.S. Secretary of State George P. Shultz said at our recently concluded OAS General Assembly, democracy unites the people of the Americas more than anything can divide them. Democracy is becoming the primary bond in this hemisphere—both within nations and among them—precisely because it is a means of managing differences, of reconciling conflicts, of building strength out of diversity. We in the United States also believe that democracy could bring the New World's historic but, as yet, incomplete promise of freedom and plenty closer to fruition for all our citizens.

In short, democracy is the only problem-resolving process that permits free competition of ideas and lets the marketplace—in this case, the polity—decide what the best solutions are. It is also the only process that, in the long run, can deal competently and justly with the “politics of economics.”

I am, therefore, optimistic about the future of the hemisphere, even though the challenges in the “politics of economics” are, indeed, daunting.

The Next 15 Years

According to an Inter-American Development Bank study, between now and the year 2000, Latin America and the Caribbean will have to create 100 million new jobs, all other things being equal. The average cost for creating one new job in the region is \$12,500. Simple arithmetic tells me that somehow \$1.25 trillion in capital will have to be generated.

These numbers are difficult enough to face by themselves but become even more sobering in the context of the present international economic environment, which is characterized by a difficult-to-manage debt structure and low prices for traditional exports and politically expedient but economically counterproductive fiscal, monetary, and statist investment policies found not only in our own hemisphere but also in other parts of the world. The effect of such policies is quite clear—high rates of inflation, low productivity, and capital flight.

If nations do not move to adjust their economies to current conditions, they face the risk of recreating the conditions reflected in the old Moscow workers' joke, “We pretend to work, and they pretend to pay us.” The second part of the joke may already exist in a few countries in the region in the form of high inflation caused, in large part, by governments' propensity to print money faster than the economy can grow. Under conditions of high inflation caused by undue monetary growth—combined with relatively high levels of government ownership of enterprises—asking for and receiving higher wages is

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Letter to The Honorable William Middendorf II from the DCI

FROM:

David B. Low
NIO/Economics

EXTENSION

NO.

NIC 02008-85

DATE

16 April 1985

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TO: (Officer designation, room number, and building)

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COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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Washington, D. C. 20505

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7 December 1984

The Honorable William J. Middendorf II
United States Representative to the
Organization of American States
Department of State
Room 6494
Washington, D. C. 20520

Dear Bill,

I want to thank you for sending me that splendid speech of yours to the OAS on the need for Reaganomics in the Third World. It was a masterful piece of work.

I send to you a working paper I had prepared to generate ideas on what can be done on what I believe to be a historic opportunity to bring progress to lesser developed countries (LDCs) around the world, help solve our own economic problems and demonstrate that Western capital, technology and managerial skills can accomplish what Soviet military and economic assistance and statist approaches have failed to deliver.

LDCs around the world are shifting to more pragmatic approaches to solving their problems. They recognize that their highly centralized development policies have been a major cause of economic stagnation. They know that the Soviet economic system did not live up to expectations, and Communist countries supplied only meager amounts of economic aid and were unable to provide significant markets for LDC goods. They see that the newly industrialized countries (NICs) of the Far East have attained economic progress and succeeded in coping effectively with the oil price hikes, recessions, high interest rates and heavy debt which have so adversely affected the LDCs. They know that prospects for large amounts of Western foreign assistance have diminished. The fact that the NICs have succeeded without Western aid, together with LDC need for infusions of capital, technology and skills available from the West, creates a historic opportunity for us.

It is the lesser developed countries that can least afford the burden of inefficient government bureaucracies and ponderous state enterprises. In many of these countries a response is beginning to take shape. In some cases, large "second economies" consisting of small-scale enterprises are emerging. LDC governments are increasingly willing to contemplate and experiment with market-oriented approaches.

This changing climate presents significant economic opportunities for the United States:

- To increase the promotion of small-scale enterprises within LDCs and the acceptance and adaptation of new technologies.

- To enlarge the flow of foreign direct investment, and to help state enterprises become more efficient and find ways to relinquish some functions to the private sector.
- To strengthen its trade, finance and investment links with LDCs based upon a growing mutuality of economic interest.

The shift to more domestically-oriented development also will likely limit North-South trade frictions and help quiet protectionist sentiment in the developed world. Those additional LDCs that do become major exporters of manufactures (including China) will be mainly selling less sophisticated products and, as such, they will be taking away developed country markets from the current NICs.

In order to make the most of this increasingly important evolutionary and grass roots development process, we need to reorder economic aid programs so that more assistance reaches the small-scale entrepreneur.

The forces at play here have security implications as well. They can strengthen the West's position relative to that of the Soviet Union in LDCs. Soviet domestic economic and foreign financial constraints over the next ten years will make Moscow even less able to compete in nonmilitary sectors. At the same time, US security interests will often coincide with opportunities for economic support, and security assistance can reinforce the willingness and ability of an LDC to bring in and develop capital, technology and needed skills.

I would like your reactions and suggestions on how this paper might be improved and how we might proceed to reorder our policies and instrumentalities to realize this opportunity.

Yours,



William J. Casey

Attachment:

Paper entitled "Economic Forces for Change in the Third World," dtd 15 November 1984

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Director
Central
Intelligence

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Economic Forces for Change in the Third World

A Special Assessment

Confidential

*NI 84-10004
December 1984*

Copy 402

National Intelligence Council

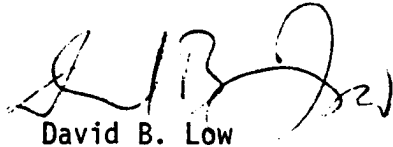
9 November 1984

NOTE FOR: Director of Central Intelligence

FROM: David B. Low
NIO/AL

SUBJECT: Attached Letter to J. William
Middendorf, II, Department of
State

I received this letter, dated 16 October, for action on 8 November. The Ambassador requests the DCI's views prior to the next OAS General Assembly, which begins Monday, November 12 in Brasilia. Thus, to be timely the attached should be signed and hand delivered today.


David B. Low



Washington, D.C. 20505

The Honorable J. William Middendorf, II
Permanent Representative to Organization
of American States
U.S. Department of State
Washington, D. C. 20520

Dear Bill,

I read your letter of October 16, 1984 and the attached address on the private sector's role in Latin American development with great interest. As you know, I concur strongly with the thrust of your comments.

I also have concluded that we have a "window of opportunity" at this moment in history. And I, too, see a new willingness on the part of many countries to face up to these issues. I have commissioned a study which I expect to be completed during November on this very topic. In this study we intend to develop the idea that there is good reason to believe that in Third World countries the socialist model is increasingly being perceived as having failed to generate real economic growth. There does indeed appear to be a shift from the ideologically-inspired policies of the post-colonial era to much more practical approaches.

The process of decolonization played into the hands of the socialist countries. Many leaders of newly established Third World countries perceived that the poverty of the Third World was either a legacy of the colonial period or part of a continuing Western attempt to exploit the Third World through the capitalist international trading system. Moscow exploited this feeling by offering an alternative which featured centralized control and state domination, which was seen by LDC leaders as essential. At the same time, much of Western developmental aid tended to reinforce the value of central planning and the development of parastatals.

However, during the past decade the circumstances changed. The world encountered tough economic times: two oil price hikes, two recessions, higher interest rates, and massive debt. At the same time, other trends began to develop:

- A number of LDCs began to recognize that, in the context of such external economic influences, LDC developmental policies, with the emphasis on central planning, reduced incentives for the farmer, etc., were not working.
- Many LDCs began to realize that they had less global, collective economic power than they perceived in the 1970s.
- Expectations that the Soviets could provide economic alternatives were reduced. Such countries as Cuba have provided a dismal example of economic progress under Moscow's tutelage. In addition, many LDCs have come to realize that Communist countries provide only a meager amount of economic aid and have been unable to provide significant alternative markets for LDC goods.
- Prospects for sizeable new amounts of Western foreign assistance have dimmed, with aid increasingly going for security assistance, humanitarian purposes and debt repayment.
- Continuing economic advances of many Far East LDCs have demonstrated that efficient domestic policies can overcome adverse external economic circumstances.

Accordingly, we now see LDC governments increasingly willing to contemplate and experiment with market-oriented approaches. Within certain constraints, such as the need to maintain central government political control, the private sector is being increasingly allowed to operate independently. There are many examples of this, such as the one you noted in Peru, but the most significant may be the PRC.

This changing climate presents significant economic opportunities for the US:

- to increase the promotion and development of small-scale enterprises within LDCs and the acceptance of and adaptation to new technologies, to enlarge the flow of foreign direct investment, and to help state enterprises to become more efficient and find ways to relinquish some functions to the private sector; and
- to strengthen its links with LDCs based upon a growing mutuality of economic interest.

These forces also have security implications. They should strengthen the West's position in relation to that of the Soviet Union in LDCs. Soviet domestic economic and foreign financial constraints over the next ten years will make Moscow even less able to compete in non-military sectors. Also, US security interests will often coincide with opportunities for economic support, and security assistance can reinforce the willingness of an LDC to make a change.

Personally, I am not convinced that the mechanisms necessary to take advantage of these opportunities presently exist within the US Government. Rather, I feel that some sort of legislative change will be required to create the appropriate mechanisms to accomplish this critical task.

Needless to say, when we have completed our study we will share it with you.

Sincerely,

William J. Casey
Director of Central Intelligence

SUBJECT: Letter to The Honorable J. William Middendorff II, Permanent
Representative to US Mission to the Organization of
American States from DCI

NIO/AL/DL:rr



9 November 1984

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Unit States Department of State



*United States Permanent Mission to the
Organization of American States*

Washington, D. C. 20520

October 16, 1984

Executive Registry
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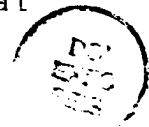
Dear Bill:

The economies of most Latin American countries have been in a freefall. Despite some modest recent improvements in their exports, primarily to the U.S. and helped along by our Reagan-led recovery, as well as some indications of a very modest resumption of growth, full-recovery cannot be expected for some time. Their debts are potentially overpowering and the prospects for early repayment without major capital infusions are small. Furthermore, with these economies still being in the doldrums, and with the people becoming restless, this region, so strategically important to the United States, remains a potential breeding ground for leftist adventurism.

All need not be lost. Their desperate capital needs can be met -- not by more borrowing -- but rather by major infusions of foreign direct investments, by reviving their relatively dormant private sectors and by bringing into better balance the private sector-public sector ratios now highly tilted toward generally inefficient state enterprises. A fair number of the countries owing the largest amounts of the \$350 billions have nearly 75% of their Industrial production owned by the government, with the energetic private sector being pushed aside. Excessive printing of money, capital flight and, in some cases, corruption have been the result. As Senator Manuel Ulloa of Peru has said, "Is it any wonder no one wants to invest in our countries where we don't want to ourselves?" Just after World War II, half of all U.S. investments overseas were in Latin America -- now only 5% of new investments, often bringing with them needed technology and management skills, are going there. Much of this, however, will require basic structural changes in their economic approach, and as I travel in the region, I see a new willingness on the part of many countries to face up to these issues.

Frankly, what is needed is a healthy dose of Reaganomics -- it works!

During the week of August 27-31, we had our Annual Meeting of the Inter-American Economic and Social Council of the OAS in Santiago, Chile. One of the matters we discussed was how to promote a structural change in Latin America to bring about a greater awareness of the political-economic benefits of a vital private sector and a free market approach to the region's economic problems. I strongly feel that a measure of success



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in promoting this structural change could be the greatest legacy leaders like you and those of us serving in positions which influence economic thought can leave to future generations. In our Hemisphere at the present time, we have a "window" of opportunity to stem the tide of socialist-statist philosophy and we must take every opportunity to speak out against statist "non-solutions" to the region's economic problems. These issues directly effect our own long term survival in this hemisphere. As Ben Franklin said, "We must all hang together or we will surely all hang separately."

In the enclosed speech to the Chilean-American Chamber of Commerce, I have directly confronted the sacred cows of the Calvo Doctrine, Andean Pact Decision 24, and certain development policies earlier inspired by Raul Prebisch, who himself has modified many of his views, as Keynes did later in his life. In this effort, the work of such researchers as Dr. Hernando de Soto of Peru has provided us not only with valuable intellectual ammunition, but also represents the spadework in preparing the ground for a philosophical re-orientation in development economics in Latin America.

President Peagan addressed this whole issue in this speech to the World Bank last month, calling for greater infusions of foreign direct investments into a more hospitable investment climate south of the border.

I hope that you, as a friend of the OAS, will find these remarks of interest, and we here at this Mission would very much appreciate your input before we move to the next phase in this battle in mid-November at our OAS General Assembly in Brasilia. We need your help and counsel on this.

Sincerely,

Bill

J. William Middendorf, II
Ambassador
Permanent Representative

Enclosure: As stated

The Honorable
William Casey,
Director of CIA.

Bill
Still pushing The Reaganomics
Theme For The Hemisphere
So depressed and in need
of Capital.
Bill